

# Chapter 4

## AUDITED FINANCIAL STATEMENTS AND RELATED FINANCIAL INFORMATION



Merafong City  
Annual Report 2008/2009

**REPORT OF THE AUDITOR-GENERAL TO THE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE MERAFONG CITY LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Merafong City Local Municipality which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 96 to 135.

**The accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with Statements of Generally Recognised Accounting Practice (Statements of GRAP) and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**The Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Merafong

City Local Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Basis for qualified opinion**

#### **Property, plant and equipment**

8. The Standard of Generally Recognised Accounting Practice, GRAP 17 *Property, plant and equipment*, paragraph 38 and 39 states that subsequent to initial recognition at cost, an item of property, plant and equipment should be carried at cost less accumulated depreciation and accumulated impairment losses or at a revalued amount less accumulated depreciation and accumulated impairment losses. Contrary to accounting policy note 2 and note 8 to the financial statements, the municipality did not succeed in completing the valuation process within the allowable period. I was unable to practicably quantify the misstatements and could not perform alternative procedures due to a lack of sufficient appropriate supporting documents which will only be available on completion of the valuation exercise. Consequently I was unable to satisfy myself as to the existence, rights and obligations, completeness and valuation and allocation of property, plant and equipment of R335 021 000 included in the statement of financial position.

### **Qualified opinion**

9. In my opinion, except for the effects of the matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Merafong City Local Municipality as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with the Statements of Generally Recognised Accounting Practice (Statements of GRAP) and in the manner required by the MFMA.

### **Emphasis of matters**

I draw attention to the following matters on which I do not express a qualified opinion:

#### **Unauthorised, irregular or fruitless and wasteful expenditure as well as material losses through criminal conduct**

10. As disclosed in note 38.2 to the financial statements, unauthorised expenditure to the amount of R14 239 000 was incurred due to overspending on various votes.

### **Restatement of corresponding figures**

11. As disclosed in note 36 to the financial statements, the property, plant and equipment, stock in transit, finance leases and reserves amounts included in the corresponding figures for 30 June 2008 have been restated as a result of errors discovered during 2009 in the financial statements of the Merafong City Local Municipality at, and for the year ended, 30 June 2008. The result of the restatement is a decrease in the operating profit of R7 553 000, a decrease in assets of R26 000 000, a decrease in liabilities of R6 030 000 and a decrease in reserves of R27 523 000.

## **Other matters**

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

### **Unaudited supplementary schedules**

12. The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary budget information set out on pages 136 to 137 does not form part of the financial statements and is presented as additional information. Accordingly I do not express an opinion thereon.

## **Non-compliance with applicable legislation**

### **Municipal Finance Management Act**

13. The municipality did not submit returns on their conditional grant spending in the required format as required by section 31(4) of the MFMA and section 31(2) of the Division of Revenue Act, 2008 (Act No. 2 of 2008) (DoRA).

### **GNR.868 of 30 May 2005: Municipal Supply Chain Management Regulations**

14. Written monthly reports containing particulars of each final award made by an official or bid committee were not submitted within five days of the end of each month to the accounting officer or his sub-delegates as required by regulation 5(3).

15. The municipality did not publicly invite prospective providers to submit their details for inclusion in the supplier database as required by regulation 14(1)(a)(ii).

## **Governance framework**

16. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

### **Internal control deficiencies**

17. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorised according to the five components of an effective system of internal control. (The number listed per component can be followed with the legend below the table.) In some instances deficiencies exist in more than one internal control component.

Par. no.	Basis for qualified opinion	CE	RA	CA	IC	M
8.	Property, Plant and Equipment	1,2			1	

18. Action plans to address the revaluation process could not realistically take into account the extent as well as the challenges specific to this exercise due to the lack of prescribed processes and benchmarks to implement the various requirements of the GRAP standards. The municipality had to formulate and implement their own processes, adjust the organisational structure and assign appropriate levels of responsibility, all of which will only be finalised over a period of time.

<b>Legend</b>	
<b>CE = Control environment</b>	
<b>RA = Risk assessment</b>	
<b>CA = Control activities</b>	
<b>IC = Information and communication</b>	
<b>M = Monitoring</b>	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self-assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

## Key governance responsibilities

19. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	Y	
<b>Quality of financial statements and related management information</b>			
2	The financial statements were not subject to any material amendments resulting from the audit.	Y	
3	The annual report was submitted for consideration prior to the tabling of the auditor's report.	Y	
<b>Timeliness of financial statements and management information</b>			
4	The annual financial statements were submitted for auditing as per the legislated deadlines section 126 of the MFMA.	Y	
<b>Availability of key officials during audit</b>			
5	Key officials were available throughout the audit process.	Y	
<b>Development and compliance with risk management, effective internal control and governance practices</b>			
6	Audit committee		
	• The municipality had an audit committee in operation throughout the financial year.	Y	
	• The audit committee operates in accordance with approved, written terms of reference.	Y	
	• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	Y	
7	Internal audit		
	• The municipality had an internal audit function in operation throughout the financial year.	Y	
	• The internal audit function operates in terms of an approved internal audit plan.	Y	
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.	Y	
8	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	Y	
9	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	Y	
10	The information systems were appropriate to facilitate the preparation of the financial statements.	Y	
11	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(c)(i) of the MFMA.	Y	

12	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	Y	
<b>Follow-up of audit findings</b>			
13	The prior year audit findings have been substantially addressed.		N
14	SCOPA/Oversight resolutions have been substantially implemented.	N/A	
<b>Issues relating to the reporting of performance information</b>			
15	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	Y	
16	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	Y	
17	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the [entity name] against its mandate, predetermined objectives, outputs, indicators and targets section 68/87 of the MFMA.	Y	
18	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	Y	

20. The only material prior year audit finding relates to the property, plant and equipment. This is due to the extent of the challenges synonymous with the verification and valuation of municipal assets. The exercise covers a substantial geographical area, including difficult terrain for which historical data does not exist, it requires the use of specialists, adjustment and updating of the municipal information systems as well as the formulation and implementation of operational and accounting policies and procedures

### **Investigations**

21. An investigation was conducted to probe the manner and the extent to which cashiers misappropriated cash. The investigation has resulted in criminal proceedings being instituted against seven employees.

22. An investigation into the licensing department was conducted by an independent consulting firm on request of the municipality. The investigation was initiated based on an allegation of possible fraudulent licensing by employees of the municipality. The report was submitted to management and this resulted in subsequent investigations which are still in progress.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Report on performance information**

23. I have reviewed the performance information as set out on pages 24 to 69.

### **The accounting officer's responsibility for the performance information**

24. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

### **The Auditor-General's responsibility**

25. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
26. In terms of the foregoing my engagement included performing procedures to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
27. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

### **Findings on performance information**

#### **Usefulness and reliability of reported performance information**

28. The following criteria were used to assess the usefulness and reliability of the information on the municipality's performance with respect to the objectives in its integrated development plan:
  - Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan?
  - Relevance: Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?
  - Reliability: Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

The following findings relate to the above criteria:

#### **Reported performance information not relevant**

29. The following target with regard to the Roads and Storm water objectives were not:
  - specific in clearly identifying the nature and the required level of performance
  - measurable in identifying the required performance
  - time-bound in specifying the time period or deadline for delivery.

Development Priority and Objective	Key performance indicator
To render an effective and efficient integrated Road and Storm water service in the jurisdiction area Merafong City	Access roads built

## APPRECIATION

30. The assistance rendered by the staff of the Merafong City Local Municipality during the audit is sincerely appreciated.

*Auditor General*

Pretoria

15 January 2010



*Auditing to build public confidence*

**MERAFONG CITY LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2009

**Approval of annual financial statements**

I am responsible for the preparation of these annual financial statements, which are set out on pages 86 to 137, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 25 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

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Municipal Manager:

*DATE: 31 August 2009*

**MERAFONG CITY LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 30 June 2009**

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FINAL DRAFT REPORT OF THE AUDITOR-GENERAL TO THE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE MERAFONG CITY LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the accompanying financial statements of the Merafong City Local Municipality which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

### The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with Statements of Generally Recognised Accounting Practice (Statements of GRAP) and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this

financial year, I have determined that my audit of any disclosures made by the Merafong City Local Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **Basis for qualified opinion**

#### **Property, plant and equipment**

8. The Standard of Generally Recognised Accounting Practice, GRAP 17 *Property, plant and equipment*, paragraph 38 and 39 states that subsequent to initial recognition at cost, an item of property, plant and equipment should be carried at cost less accumulated depreciation and accumulated impairment losses or at a revalued amount less accumulated depreciation and accumulated impairment losses. Contrary to accounting policy note 2 and note 8 to the financial statements, the municipality did not succeed in completing the valuation process within the allowable period. I was unable to practically quantify the misstatements and could not perform alternative procedures due to a lack of sufficient appropriate supporting documents which will only be available on completion of the valuation exercise. Consequently I was unable to satisfy myself as to the existence, rights and obligations, completeness and valuation and allocation of property, plant and equipment of R335 021 000 included in the statement of financial position.

#### **Qualified opinion**

9. In my opinion, except for the effects of the matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Merafong City Local Municipality as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with the Statements of Generally Recognised Accounting Practice (Statements of GRAP) and in the manner required by the MFMA.

#### **Emphasis of matters**

I draw attention to the following matters on which I do not express a qualified opinion:

#### **Unauthorised, irregular or fruitless and wasteful expenditure as well as material losses through criminal conduct**

10. As disclosed in note 38.2 to the financial statements, unauthorised expenditure to the amount of R14 239 000 was incurred due to overspending on various votes.

#### **Restatement of corresponding figures**

11. As disclosed in note 36 to the financial statements, the property, plant and equipment, stock in transit, finance leases and reserves amounts included in the corresponding figures for 30 June 2008 have been restated as a result of errors discovered during 2009 in the financial statements of the Merafong City Local Municipality at, and for the year ended, 30 June 2008. The result of the restatement is a net surplus in the operating profit of R7 553 000, a decrease

in assets of R26 000 000, a decrease in liabilities of R6 030 000 and a decrease in reserves of R27 523 000.

#### **Other matters**

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

#### **Other information included in the annual report**

12. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

#### **Unaudited supplementary schedules**

13. The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary budget information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. Accordingly I do not express an opinion thereon.

#### **Non-compliance with applicable legislation**

##### **Municipal Finance Management Act**

14. The municipality did not submit returns on their conditional grant spending in the required format as required by section 31(4) of the MFMA and section 31(2) of DoRA.

##### **GNR.868 of 30 May 2005: Municipal Supply Chain Management Regulations**

15. Written monthly reports containing particulars of each final award made by an official or bid committee were not submitted within five days of the end of each month to the accounting officer or his sub delegates as required by regulation 5(3).

16. The municipality did not publicly invite prospective providers to submit their details for inclusion in the supplier database as required by regulation 14(1)(a)(ii)).

#### **Governance framework**

17. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

#### **Internal control deficiencies**

18. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the qualified opinion.

The root causes are categorised according to the five components of an effective system of internal control. (The number listed per component can be followed with the legend below the table.) In some instances deficiencies exist in more than one internal control component.

Par. no.	Basis for qualified opinion	CE	RA	CA	IC	M
8.	Property, Plant and Equipment	1,2			1	

19. Action plans to address the revaluation process could not realistically take into account the extent as well as the challenges specific to this exercise due to the lack of prescribed processes and benchmarks to implement the various requirements of the GRAP standards. The municipality had to formulate and implement their own processes, adjust the organisational structure and assign appropriate levels of responsibility, all of which will only be finalised over a period of time.

<b>Legend</b>	
CE = Control environment	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
<b>RA = Risk assessment</b>	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
<b>CA = Control activities</b>	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
<b>IC = Information and communication</b>	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
<b>M = Monitoring</b>	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self-assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

## Key governance responsibilities

20. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	Y	
<b>Quality of financial statements and related management information</b>			
2	The financial statements were not subject to any material amendments resulting from the audit.	Y	
3	The annual report was submitted for consideration prior to the tabling of the auditor's report.		N
<b>Timeliness of financial statements and management information</b>			
4	The annual financial statements were submitted for auditing as per the legislated deadlines section 126 of the MFMA.	Y	
<b>Availability of key officials during audit</b>			
5	Key officials were available throughout the audit process.	Y	
<b>Development and compliance with risk management, effective internal control and governance practices</b>			
6	Audit committee		
	<ul style="list-style-type: none"> <li>The municipality had an audit committee in operation throughout the financial year.</li> <li>The audit committee operates in accordance with approved, written terms of reference.</li> <li>The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.</li> </ul>	Y	
7	Internal audit		
	<ul style="list-style-type: none"> <li>The municipality had an internal audit function in operation throughout the financial year.</li> <li>The internal audit function operates in terms of an approved internal audit plan.</li> <li>The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.</li> </ul>	Y	
8	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	Y	
9	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	Y	
10	The information systems were appropriate to facilitate the preparation of the financial statements.	Y	
11	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(c)(i) of the MFMA.	Y	

12	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	Y	
<b>Follow-up of audit findings</b>			
.13	The prior year audit findings have been substantially addressed.		N
14	SCOPA/Oversight resolutions have been substantially implemented.	N/A	
<b>Issues relating to the reporting of performance information</b>			
15	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	Y	
16	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	Y	
17	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the [entity name] against its mandate, predetermined objectives, outputs, indicators and targets section 68/87 of the MFMA.	Y	
18	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	Y	

21. The only material prior year audit finding relates to the fixed assets. This is due to the extent of the challenges synonymous with the verification and valuation of municipal assets. The exercise covers a substantial geographical area, including difficult terrain for which historical data does not exist, it requires the use of specialists, adjustment and updating of the municipal information systems as well as the formulation and implementation of operational and accounting policies and procedures

### **Investigations**

22. An investigation was conducted to probe the manner and the extent to which cashiers misappropriated cash. The investigation has resulted in criminal proceedings being instituted against seven employees.

23. An investigation into the licensing department was conducted by an independent consulting firm on request of the municipality. The investigation was initiated based on an allegation of possible fraudulent licensing by employees of the municipality. The report was submitted to management and resulted in subsequent investigations which are still in progress.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Report on performance information**

24. I have reviewed the performance information as set out on pages xx to xx.

### **The accounting officer's responsibility for the performance information**

25. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

### **The Auditor-General's responsibility**

26. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

27. In terms of the foregoing my engagement included performing procedures to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

28. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

### **Findings on performance information**

#### **Non-compliance with regulatory requirements**

#### **Reported performance information not relevant**

29. The following target with regard to the Roads and Storm water objectives were not:

- specific in clearly identifying the nature and the required level of performance
- measurable in identifying the required performance
- time bound in specifying the time period or deadline for delivery.

Development Priority and Objective	Key performance indicator
To render an effective and efficient integrated Road and Storm water service in the jurisdiction area Merafong City	Access roads built

## APPRECIATION

30. The assistance rendered by the staff of the Merafong City Local Municipality during the audit is sincerely appreciated.

Place of signing

Date of signing



DRAFT

**MERAFONG CITY LOCAL MUNICIPALITY**

**STATEMENT OF FINANCIAL POSITION**

as at 30 June 2009

	Note	2009 R'000	2008 R'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	1	116 167	20 946
Trade and other receivables from exchange transactions	2	79 635	69 122
Other receivables from non-exchange transactions	3	13 665	23 102
Inventories	4	5 692	5 261
Investments	5	190 204	31 354
Current portion of receivables	6	985	913
VAT receivable	12	3 970	5 349
<b>Non-current assets</b>			
Non-current receivables	6	11	12
Investments	7	11 435	20 386
Property, plant and equipment	8	335 021	217 147
<b>Total assets</b>		<b>756 785</b>	<b>393 593</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	9	69 657	56 999
Consumer deposits	10	9 019	8 066
VAT payable	11	25 946	24 037
Current provisions	13	1 364	1 341
Current portion of unspent conditional grants and receipts	14	282 160	49 381
Current portion of borrowings	15	7 000	17 196
Current portion of finance lease liability	16	9 623	13 935
<b>Non-current liabilities</b>			
Non-current borrowings	15	74 234	63 595
Non-current finance lease liability	16	26 965	29 360
<b>Total liabilities</b>		<b>505 968</b>	<b>263 909</b>
<b>Net assets</b>		<b>250 817</b>	<b>129 684</b>
<b>NET ASSETS</b>			
Reserves		238 343	141 651
Accumulated surplus / (deficit)		12 474	(11 967)
<b>Total net assets</b>		<b>250 817</b>	<b>129 684</b>

**MERAFONG CITY LOCAL MUNICIPALITY**

**STATEMENT OF FINANCIAL PERFORMANCE**

for the year ending 30 June 2009

	Note	2009 R'000	2008 R'000
<b>Revenue</b>			
Property rates	17	81 854	55 619
Property rates - penalties imposed and collection charges	17	2 946	3 753
Service charges	18	289 898	255 551
Rental of facilities and equipment	19	939	941
Interest earned - external investments	20	32 263	9 121
Interest earned - outstanding receivables	21	17 090	16 531
Fines		2 344	3 295
Licences and permits		10 190	8 406
Government grants and subsidies	22	238 249	145 681
Public contributions and donations	23	2 043	4 727
Other income	23	7 049	16 553
<b>Total revenue</b>		<b>684 866</b>	<b>520 179</b>
<b>Expenses</b>			
Employee related costs	24	171 230	152 761
Remuneration of councillors	25	11 614	10 262
Collection costs		545	279
Depreciation and amortisation expense	26	23 144	17 335
Repairs and maintenance		12 247	13 282
Finance costs	27	13 388	13 452
Bulk purchases	28	159 261	140 300
Contracted services	29	19 820	21 380
Grants and subsidies paid	30	6 032	5 813
General expenses	31	106 867	53 979
Transfer to Provisions		43 521	59 041
<b>Total expenses</b>		<b>567 669</b>	<b>487 885</b>
Gain / (loss) on sale of assets	32	780	1 483
Inventories: (Write-down) / reversal of write-down to net realisable value	4	(878)	(917)
<b>Surplus for the period</b>		<b>117 098</b>	<b>32 860</b>

**MERAFONG CITY LOCAL MUNICIPALITY**  
**STATEMENT OF CHANGES IN NET ASSETS**  
as at 30 June 2009

Note	Other reserves R'000	Total: Reserves R'000	Surplus/(Deficit) R'000	Accumulated	Total: Net Assets R'000
				(Deficit)	
<b>Balance at 30 June 2007</b>					
Correction of prior period error					
<b>Restated balance</b>					
Capital grants used to purchase PPE					
Offsetting of depreciation					
Net gains and losses not recognised in the statement of financial performance					
Surplus / (deficit) for the period					
<b>Balance at 30 June 2008</b>					
Correction of prior period error					
<b>Restated balance</b>					
Capital grants used to purchase PPE					
Offsetting of depreciation					
Net gains and losses not recognised in the statement of financial performance					
Transfers to / from accumulated surplus/(deficit)					
Surplus / (deficit) for the period					
<b>Balance at 30 June 2009</b>					
	<b>238 343</b>	<b>238 343</b>	<b>12 474</b>		<b>250 816</b>

**MERAFONG CITY LOCAL MUNICIPALITY**

**CASH FLOW STATEMENT**

as at 30 June 2009

	Note	2009 R'000	2008 R'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts		1 148 831	669 140
External Loans Income		19 930	-
Sales of goods and services		432 374	3078 093
Grants		523 174	145 681
Investments redeemed		138 724	206 445
Interest Received		32 263	9 121
Other receipts		2 366	-
Payments		745 205	5701 807
Employee costs		171 230	152 761
Suppliers		304 227	234 755
Interest paid		13 388	13 452
Investments made		256 360	169 218
<b>Net cash flows from operating activities</b>	33	<b>403 627</b>	<b>98 953</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of fixed assets		(136 736)	(88 700)
Proceeds from sale of fixed assets		780	1 483
Proceeds from sale of investments		(10 785)	1 596
<b>Net cash flows from investing activities</b>		<b>(146 741)</b>	<b>(85 621)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		16 962	15 323
Repayment of borrowings		(16 519)	(4 015)
Proceeds from finance lease liability		3 342	(35 020)
Repayment of finance lease liability		(10 048)	(11 932)
<b>Net cash flows from financing activities</b>		<b>(6 263)</b>	<b>(35 643)</b>
<b>Net increase / (decrease) in net cash and cash equivalents</b>		<b>250 622</b>	<b>(22 311)</b>
<b>Net cash and cash equivalents at beginning of period</b>		<b>52 299</b>	<b>74 610</b>
<b>Net cash and cash equivalents at end of period</b>	34	<b>302 922</b>	<b>52 299</b>